

**Senate Budget and Fiscal Review Subcommittee #4 on
Legislative, Executive, Judiciary, Transportation, and
General Government**

**Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny**

**Wednesday, March 12, 2003
1:30 p.m.
Room 2040**

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Proposed Consent Calendar

<u>Item</u>	<u>Department</u>
0750	Office of the Lieutenant Governor
0845	Department of Insurance
1705	Fair Employment and Housing Commission

0860 Board of Equalization

The Board of Equalization (BOE) collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws. The budget includes \$321.4 million or 0.4 percent more than the current-year.

The LAO Analysis includes an issue regarding cigarette tax evasion activity. There has been a decline in both total consumption of taxable cigarettes and per capita consumption of taxable cigarettes over the last ten years. During this period, the cigarette tax has increased from 10 cents to 87 cents per pack. In addition, there are statewide restrictions on smoking in public buildings. These restrictions and the increased price of cigarettes have resulted in some decline in consumption. Some of this decline, however, is due to an increase in the consumption of untaxed cigarettes. Major areas of cigarette tax evasion include:

- Stamp counterfeiting.
- Smuggling across state or international borders.
- Internet purchases.
- Unstamped products.

BOE staff has estimated that the current revenue loss due to cigarette tax evasion is between \$130 million and \$270 million annually.

Issues

1. Administration of the Cigarette and Tobacco Products Tax Program. The budget proposes an augmentation to implement the pilot program in Chapter 881, Statutes of 2002, which requires BOE to replace the current cigarette stamps and meter impressions with encrypted stamps or meter impressions that can be read by a scanning or similar device. The budget includes \$294,000 (\$34,000 GF) in the current year for implementation costs and \$678,000 (\$77,000 GF) in the budget year for on-going costs.

BOE will report to the Subcommittee on the status of this pilot program.

BOE will also report on their estimates of revenue loss due to tax evasion.

2780 Stephen P. Teale Data Center

The budget proposes \$93 million in expenditure authority for the Teale Data Center (TDC) in the budget year. TDC provides information technology services to numerous state agencies that reimburse the data center for its operational costs. This is a \$2.9 million (3 percent) increase over current year expenditures.

Issues

1. Upgrade of Mainframe Computer Systems. The budget includes expenditure authority to increase funding by \$8.1 million to upgrade or purchase additional computer and network equipment.

The LAO recommends a reduction of \$6.9 million based on demand for services. The LAO asks that TDC report on what it could do to lower both costs and rates charged to departments in the budget year.

The department should report on usage and rate calculations used for expenditure authority in the budget year.

2. California Home Page. In November 2002, the Legislature approved a modified plan to transfer the Home Page from the Department of General Services (DGS) to TDC. DGS had funding for five positions and an additional \$4.2 million annually for contracts with Deloitte & Touche for on going costs of maintaining the Home Page. The California Home Page allows Internet Users to go to one web site and access all state agencies with web sites.

The budget requests \$2.1 million and ten positions for continued support of the California Home Page. This request includes \$453,000 for four new positions to replace the work provided through contract at DGS.

The LAO contends that these positions have not been justified. TDC indicates that it is difficult to estimate the workload because they do not have workload data from the consulting contract.

TDC should comment on the request for increased expenditure authority.

3. Teale Data Center/Health and Welfare Data Center Reorganization. The LAO contends that combining these two agencies could provide savings.

TDC should comment on any plans for consolidation or reorganization of the data centers.

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. The budget year expenditures are proposed at \$16.6 million (\$12.6 million GF), which is a decrease of 24 percent from the current year.

The December Revision proposed to revert \$837,000 and 9 PYs related to vacant positions and an additional 11 positions as part of a five percent reduction. SB 19X, as passed by the Senate, included the proposed reversion.

One-time federal funding from HUD in the current year provided an augmentation of \$1.6 million to process housing cases. This partially offset the loss of General Fund support in the current year.

Issues

1. Workload. The budget proposes to reduce the budget by an additional \$3.1 million (GF) and 45 PYs. This is a reduction of nearly one-fifth of the staffing of the department. The department has a mandate to investigate cases within 365 days. After 365 days, DFEH loses jurisdiction. The complainants only recourse is to obtain legal representation.

The table below shows the number of cases filed, authorized and filled positions, and average caseload for employment-related issues.

Fiscal Year	Cases Filed for Investigation	Authorized Positions	Filled Positions	Average Caseload	Cases Exceeding 365 Days
1999-00	9,254	127	108	86	14
2000-01	8,865	127	102	87	22
2001-02	9,620	108	95	101	68
2002-03 <u>1/</u>	10,374	103	101	103	65
2003-04 <u>2/</u>	11,183	80	80	140	--

1/ The 2002-03 estimates are based on the first seven months of the year. The actual number of filled positions is lower now because staff is accepting other employment in anticipation of the proposed reduction in staff in the budget year.

2/ The 2003-04 estimates assume the same increase in filings from 2001-02 to 2003-04 (between seven and eight percent).

With an additional reduction in staff of 20 percent, how many cases will exceed the 365-day mandatory deadline?

2. Closure of Field Offices. The Enforcement Division investigates allegations of discrimination in employment, public accommodations, and hate violence. The Division currently has 12 district offices.

The budget proposes to close two district offices (San Bernardino and Ventura). The proposal also includes a reduction in staff from 21 to 13 at the Los Angeles district office.

How will these closures affect services?

A representative from the California Employment Lawyers Association would like to address the subcommittee.

2240 Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families and other special need groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The HCD budget is proposed to increase from \$446.1 million in the current year to \$647.2 million in the budget year. The General Fund support in the current year is \$15.1 million and is proposed at \$13.4 million in the budget year. In 2001-02, the total budget for HCD was \$305.4 million, of which \$91.7 million was from the General Fund.

Issues

1. Housing Preservation Research Contract.

The budget proposed to eliminate funding in the current and budget year for a \$65,000 (GF) contract to maintain and update the statewide database on assisted housing units at risk of conversion. HCD proposed awarding the contract to the California Housing Partnership Corporation (CHPC) and CHPC has been doing work under the contract since July. The Senate rejected eliminated funding for this contract in the First Extraordinary Session. Eliminating funding for this contract would jeopardize state and local efforts to use bond funds dedicated to preserving at-risk housing developments.

HCD has an alternative funding proposal for this contract. This would spread the cost of the contract amongst various HCD funding sources. This program could thus be funded with a General Fund cost of \$6,000 in the budget year.

Does the Subcommittee wish to adopt the alternate funding proposal?

2. Proposition 46 (Housing and Emergency Shelter Trust Fund Act of 2002).

This November 2002 bond measure authorized \$2.1 billion for various housing programs. Local project bond expenditures will be \$285 million in the current year and \$455 million in 2003-04.

The overall administrative costs of the bond funds are 3.92%. The LAO asserts that administrative costs should be limited to 5 percent by program. The only program with administrative costs more than 5 percent is the farmworker program, which has administrative costs of 9.9 percent.

The department should comment on why administrative costs for the farmworker program are higher than for other programs.

3. Emergency Housing Assistance Grants. The Emergency Housing and Assistance Program (EHAP) provides capital grants and operating funds for emergency shelters, transitional housing, and services for homeless individuals and families. Proposition 46 included \$195 million for this program, but the funds are restricted to capital grants to shelter providers. The funds in the budget are for operating costs, which cannot be funded from Proposition 46 bond funds.

In 2001-02, this program received \$13.3 million. In the current year, the December Revision proposed that the grant of \$5.3 million be reduced to \$4 million. The Senate and Assembly both rejected this proposed reduction. The budget proposes to continue funding in 2003-04 at the \$4 million level.

This program could not adequately support programs when it was funded at \$13.3 million. There are requests totaling more than the \$5.3 million budgeted in the current year. A further reduction in this program will deprive homeless persons.

Does the Subcommittee wish to restore the \$1.3 million in funding?

4. Office of Migrant Services Program. The budget proposes to reduce funding of the Office of Migrant Services (OMS) center support by \$625,000 to be offset by a rent increase. This reduction is equal to 10.4 percent of state funding in this program.

OMS regulations provide that HCD shall seek funds from private, local, state and federal revenue source. The regulations further provide that HCD may either adjust the schedule of rents to fully fund the operating costs or by reducing any component of operating costs or the availability of units.

The residents currently pay from \$7 to \$8.50 per day, depending on the number of rooms. The proposed rent increases would amount to an extra \$2 per day or \$60 per month, an increase of 24-29%.

The budget bill contains the following control language:

“Notwithstanding any other provision of law, the Department shall revise the rents charged the residents of the migrant centers to reimburse the actual, reasonable, and necessary costs of operation as necessitated by the reductions included in this item. The department may apportion those reductions, and adjust rents, as it deems appropriate.”

Does the subcommittee wish to adjust the GF appropriation or the proposed rent increase?

5. Employee Housing Program. The budget proposes eliminating \$721,000 (GF) and increasing regulatory fees on employers that provide housing. The fees would cover the cost of inspections. Fees would be increased from about \$125 per employer to \$1,000 per employer (800%) to cover the elimination of GF support. Most of the current employee housing is reserved for farmworkers, and the willingness of growers to provide housing has decreased over time. This fee increase requires trailer bill language. At the time this agenda was prepared, there was no trailer bill language available.

Will the increase in fees discourage participation in the program?

Where would employees find comparable housing?

6. Regional Planning Mandate. Local governments are required to zone enough land at appropriate densities to meet all of their housing needs for each income group and to reduce barriers that prevent the identified sites from being developed. Council of Governments (COGs) are required to allocate to each community its share of the regional housing need. The costs to COGs are reimbursable as a state mandate. Cities and counties are compensated for the identification of sites in their housing element to meet the targets assigned to them by COG. In addition, some local governments have received reimbursement for the costs of "review" of the proposed housing need allocations and for the costs of completing some recent additions to the housing element itself.

The state reimbursement for this mandated program (\$867,000 GF) was deferred in 2002-03. The budget proposes to appropriate \$1,000 so that the mandate continues but the reimbursement is deferred.

The LAO states that the cost of reimbursing for this mandate has been about three times the amount appropriated in the budget act.

Does the subcommittee wish to defer payment of this mandate?

Does the subcommittee wish to fund the annual reimbursable costs of \$750,000 for COGs?

Should local governments be exempt from reviewing the regional housing needs allocation? How much would this save?

7. Migrant Services Center Rehabilitation. The Planada facility is a migrant farmworker housing center in Merced County that needs approximately \$6 million in renovations. This project was scheduled to be completed with General Fund moneys in the current year, but was deferred due to budget constraints. The budget proposes to also defer the project in the 2003-04 year.

The LAO proposes that part of the \$25 million in migrant worker bond funds be used for this renovation.

The department should report on the feasibility of using bond funds or potential federal funds.

8. Funding Switch for Committed, but not Disbursed, Projects. The LAO Analysis included an option to help address the budget shortfall to switch funding from the General Fund to bond funds for a number of projects where the projects have not been completed. The LAO estimates that as much as \$300 million currently remains in committed, but not disbursed, housing funding.

The department should comment on the feasibility of changes to the funding source for these projects.

9. Redevelopment Housing Funds. The budget proposes a property tax transfer of \$500 million from the low- and moderate-income housing funds of local redevelopment agencies to ERAF in the current year. Redevelopment agencies (unlike cities, counties, and special districts) did not receive any state “bail-out” or property tax transfers from school districts as a result of the enactment of Proposition 13. The Senate rejected this proposal in the First Extraordinary Session.

The budget proposes a transfer of \$250 million or the growth in property tax revenues for redevelopment agencies to ERAF in 2003-04. This would reduce General Fund appropriations to K-14 education by the same amount. This transfer is proposed to increase to the full amount of “diverted “ redevelopment agency property tax allocation (approximately \$1.3 billion) over time.

The LAO Analysis included an option to use Proposition 46 bond funds to replace any low- and moderate-income housing funds transferred to ERAF.

The LAO should comment on this option.